

Industry Sector Analysis
TURKEY

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SPORTS AND UTILITY VEHICLES

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SUMMARY

Few experts would have predicted a growing market for SUVs in Turkey. With dense urban populations and narrow streets, limited parking availability, exceptionally high gasoline prices, combined with an erratic economy. However, with an improved economy and changes in the daily Turkish life-style, the demand for larger and multifunctional vehicles, including SUVs has increased. Previously, only a very limited number of such vehicles were found on Turkish roads. The share of SUV sales in the total Turkish vehicle market used to be around 3%-4% a year. However, this share increased to 4.3% in the first eight months of 2005.

Currently, for Turkish people U.S. made SUVs are very popular. Purchasing an SUV is perceived as a demonstration of wealth and sophistication. Currently, SUVs are providing serious competition in sales to mid-size passenger cars. This new trend offers new opportunities to U.S. firms providing SUV related equipment and accessories.

MARKET OVERVIEW

First SUV model in the Turkish market was the Renault Scenic. Actually, most experts do not even consider this car as an SUV, but as a “compact van”, however, it is the vehicle that introduced the concept of “SUV” to the Turkish market. The Opel Zafira and Citroen Picasso were others that followed, but these models were not sufficient enough for the SUV market to take-off. It was not until the new models of Honda, Toyota, and others appeared. Currently, Porsche, Chrysler, Volvo, VW, and Mercedes are well known brands with high-end models. In addition, KIA, Nissan, Suzuki, and Subaru supply the medium class SUV market. Currently, KIA with Sorento and Sportage models have the largest share in the SUV market (13.3%). In the high end, Porche, Cayenne, Range Rover, BMW and Volkswagen Touareg increased their shares significantly, and Volvo with its diesel model of XC90 enhanced its sales in 2005 compared to the year before (20.4%). New Mercedes M series, new Jeep Grand Cherokee, new Subaru Forester, and Suzuki new Grand Vitara seem to have remarkable shares in the market, 2%, 1%, 8%, and 11%, respectively. Audi’s new SUV, Q7, and Renault’s new concept SUV, are likely to increase the market competition.

In 2004, 14400 SUVs were sold, meaning a 3.2% share in the total automotive sales. In the first eight months of 2005, this figure already reached 11477, guaranteeing the whole year sales figure to reach the one in 2004.

Distribution of sales in the SUV market in Turkey in 2004 is as follows:

BRAND/MODEL	QUANTITY
BMW X3	261
BMW X5	453
CHRYSLER GRAND CHEROKEE	265
CHRYSLER CHEROKEE	412
CHRYSLER WRANGLER	34
HONDA CR-V	1593
HONDA HR-V	1380
HYUNDAI TUCSON	470
HYUNDAI SANTA FE	788
KIA SORENATO	1727
KIA SPORTAGE	194
LAND ROVER DISCOVERY	59
LAND ROVER FREELANDER	1114
RANGE ROVER	301
MERCEDES ML	130
MERCEDES G SERIES	8
MITSUBISHI PAJERO	35
PAJERO PININ	26
MITSUBISHI OUTLANDER	193
NISSAN X-TRAIL	350
PORSCHE CAYENNE	106
SUBARU FORESTER	1015
SUZUKI VITARA	1550
TOYOTA RAV4	1087
TOYOTA LAND CRUISER	240
VW TOUAREG	440
VOLVO XC90	170

Local retail prices to some SUVs are given below:

Volvo XC90: over EU119,000; VW Touareg: EU89,400-EU121,000; Suzuki new Grand Vitara: EU35,000-EU40,000; Hyundai Santa Fe: EU45,000; KIA Sorento: EU45,500; Subaru Forester: EU34,000; Nissan Pathfinder: EU70,000; Chrysler Jeep Grand Cherokee: EU84,100-EU96,200.

MARKET TRENDS

Only a few years ago, Air Conditioning Equipment - A/Cs were optional in the market. However, today, security, technical specifications, and comfort became important. Most optional functions in vehicles became “must”, and further to that new concepts, like heated seats providing massage, DVD players, navigation systems, lights adaptable to turns, etc. became important in purchasing decisions. Turkey is a country, where fuel is very expensive, therefore, Turkish buyers often opt for diesel

engines. Even though there is a conception that SUVs larger in size, most SUVs are not longer or wider than most other passenger cars. Some station wagons are longer than most SUVs. However, this perception resulted in higher taxes on SUVs.

The market favors diesel vehicles over gasoline ones, i.e. Lincoln Navigator dealer states that many consumers started asking for diesel type of the same car. The same dealer pointed out that its sales of these vehicles dropped 50% due to high fuel consumption. It seems that the market will go towards diesel types, due to very high prices of gasoline.

The statistics below encompasses SUVs with the following Harmonized Tariff System (HTS) codes:

- 8703.23.19.12.00 Vehicles with spark-ignition internal combustion, reciprocating piston engine of a cylinder capacity exceeding 1600 cc but not exceeding 2000 cc
- 8703.23.19.13.00 Vehicles with spark-ignition internal combustion, reciprocating piston engine of a cylinder capacity exceeding 2000 cc but not exceeding 3000 cc
- 8703.24.10.10.00 Vehicles with spark-ignition internal combustion, reciprocating piston engine of a cylinder capacity exceeding 3000 cc
- 8703.32.90.12.00 Vehicles with compression-ignition internal combustion, piston engine (diesel or semi-diesel) of a cylinder capacity exceeding 1600 cc but not exceeding 2000 cc
- 8703.32.90.13.00 Vehicles with compression-ignition internal combustion, piston engine (diesel or semi-diesel) of a cylinder capacity exceeding 2000 cc but not exceeding 2500 cc
- 8703.33.19.10.11 Vehicles with compression-ignition internal combustion, piston engine (diesel or semi-diesel) of a cylinder capacity exceeding 2500 cc but not exceeding 3000 cc
- 8703.33.19.10.12 Vehicles with compression-ignition internal combustion, piston engine (diesel or semi-diesel) of a cylinder capacity exceeding 3000 cc

IMPORT MARKET

o Statistical Data

	2004 USD (million)	2005 Estimated USD (million)	2006 Estimated USD (million)
Import Market	729.89	537.87	600.00
Local Production	2150.00	2400.00	2600.00
Exports	807.48	711.49	800.00
Total Market	2072.41	2226.38	2400.00
Imports from USA	24.69	26.70	30.0

Estimated future inflation rate: 10% plus

Exchange Rate

USD1 = TL 1.35 1.40 1.45

2005 (first 10 months) import market share: Germany: 52.7%; U.K.: 13.9%; Japan: 11.0%; U.S.A.:

5.0%; Austria: 3.1%; Belgium: 2.9%; France: 2.7%; Sweden: 2.3%; South Korea: 1.7%

Sources: The Turkish State Institute of Statistics, "Dunya" Newspaper, various publications by the related associations, and CS estimates based on discussions with local contacts and businesspersons active in the industry.

o Best Prospects

Diesel types of SUVs with high technologies, and tuning equipment and accessories are among the best prospects in the market. Italian, British, and German products dominate local market. Some that have remarkable shares in the market are:

Hela (lights), In.pr. (transparent stop lights and other auto accessories that can be changed easily), Koni (suspension), BBS, Apex, OZ, King Dragon, Speedline, EibachBreyton, Hamann, Kamei, Foliatec, Sparco, Superprint (exhaust), Momo, Sebring, Janspeed, Isootta, Maxtrac, Remus, Kosei, Superchips, Green, AP and American K&N, NOS, BF Goodrich, Summit, B&M. Of all the American products, NOS is the most reputable one. Additionally, there is an increasing demand for Autometer brand indicators, K&N air filters, Warm and NX products. American specialty equipment were initially used only in American brand vehicles, however, lately, products like air filters and NOS products started being used in European and Japanese vehicles, which dominate the Turkish vehicles market. Turkey has a very young population: Of the total population of 70 million, nearly half is below 20. There is a group of 5-10 percent of the population, who handles nearly half of the total income of the country. Primarily, this is the target consumer group of the tuning industry.

COMPETITION

o Local Production

Local production is not a major competitor in the SUV market in Turkey. The figures seen in local production include: Toyota's Corolla 1.8 Versa MPV, Corolla 2.0 Versa MPV, Corolla 2.2 Versa MPV, Corolla 2.0 Sedan, Corolla 2.0 Station Wagon, Fiat's Doblo 2.0 Station Wagon, and Renault's Megane 1.9 Sedan Diesel, and finally Megane 2.0i Sedan. Even though none of these can be named as SUVs, it is impossible to take them out from the production statistics, because their engine sizes. Even though local production does not create any significant competition in the SUV market at the moment, some international manufacturers are planning to benefit from the Turkish investment opportunities. Isuzu, states that depending on the market share of its D-Max, it might consider producing this model in Turkey in addition to its production in Thailand, and export to Europe from Turkey. Hyundai is another producer, considering manufacturing a SUV model in Turkey. Hyundai currently exports only 30% of its production in Turkey, however, with the new investment, it plans to increase its exports to 70% of its Turkish production.

Recognizing the potential in the Turkish SUV market, some SUV suppliers introduce their new models first in this market, even before the European market. Japanese Suzuki is one of these, introducing its Grand Vitara model first to the Turkish consumers.

Trying to benefit from the market, suppliers find interesting techniques to advertise their models. Isuzu, recently, put one D-Max as a gift to the winners of a major golf tournament in Turkey.

o Third Country Imports

Imports of SUVs in the first ten months of 2005 dropped tremendously compared to the year before (26%). Experts believe that the major reason is the high taxes on vehicles. The highest decrease is in the vehicles with fuel of an engine of a cylinder capacity exceeding 1600 cc but not exceeding 2000 cc. This decrease is nearly 30%. The second highest decrease is in vehicles with fuel of an engine of a cylinder capacity exceeding 2000 cc but not exceeding 3000 cc. Vehicles with fuel of engine sizes of over 3000 cc follow. Nearly no decrease is seen in the ones with diesel or semi-diesel engines. This demonstrates the importance of the expensive fuel with the vehicle sales. Despite the high taxes on large size engines, fuel plays an important role.

The following table provides a breakdown of the main sources of imports in the first 10 months of 2005 (in USD millions):

Countries	USD million
Germany	236.35
U.K.	62.35
Japan	49.35
U.S.A.	22.23
Austria	14.07
Belgium	12.86
France	12.15
Sweden	10.17
S. Korea	7.80

Germany is the most important supplier for SUVs. Austria and Belgium are countries, where international companies established their Europe production plants, i.e. Chrysler has one of its major plants in Austria.

The distribution of products imported in the first 10 months of 2005 is as follows:

Type	%
Vehicles with spark-ignition internal combustion, reciprocating piston engine of a cylinder capacity exceeding 1600 cc but not exceeding 2000 cc	49.7
Vehicles with compression-ignition internal combustion, piston engine (diesel or semi-diesel) of a cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	23.2

Vehicles with spark-ignition internal combustion, reciprocating piston engine of a cylinder capacity exceeding 3000 cc	17.2
Vehicles with spark-ignition internal combustion, reciprocating piston engine of a cylinder capacity exceeding 2000 cc but not exceeding 3000 cc	7.9
Vehicles with compression-ignition internal combustion, piston engine (diesel or semi-diesel) of a cylinder capacity exceeding 3000	1.9

o U.S. Market Position

Even though the imports in general dropped in 2005 compared to the year before, there is an 8% increase in the imports from the United States. Parallel to the decrease in the general SUV imports in the country, there is decrease in vehicles with fuel in all sizes from the United States. However, there is a significant increase in vehicles with compression-ignition internal combustion, piston engine (diesel or semi-diesel) of a cylinder capacity exceeding 2500 cc but not exceeding 3000 cc. This increase of nearly 60% resulted in an increase of 8% in total SUV imports from the United States.

Distribution of the vehicles imported from the U.S.A. in the first 10 months of 2005 is as follows:

Product	Import from the United States (USD)	Percentage in total
Vehicles with spark-ignition internal combustion, reciprocating piston engine of a cylinder capacity exceeding 3000 cc	10,789,272	48.5
Vehicles with compression-ignition internal combustion, piston engine (diesel or semi-diesel) of a cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	10,236,025	46.1
Vehicles with spark-ignition internal combustion, reciprocating piston engine of a cylinder capacity exceeding 2000 cc but not exceeding 3000 cc	1,108,494	5.0
Vehicles with spark-ignition	108,572	0.4

internal combustion, reciprocating piston engine of a cylinder capacity exceeding 1600 cc but not exceeding 2000 cc		
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END USERS

Nearly 5% of the population is financially very well situated, and these are the ones that can afford SUVs. Most of them live in larger cities, Istanbul being the largest market. However, some mid-income level people also may shift their mid-size passenger car needs to mid-size SUVs, too. Distributors known for their good after-sale services play a big role in making buying decision. People usually visit the distributor with a desire to buy a SUV, and it is the distributor's capability to sell.

Due to high income levels of such people, they can spare time for their hobbies most of the time, such as hiking, hunting, farming, windsurfing, diving, etc. Their hobbies help them to decide on the type of SUVs they want to own. Modern recreation equipment they need for their hobbies require larger spaces in vehicles.

There is one major automotive show that takes place in Istanbul every year, Istanbul Auto Show. This is the one where most consumers meet the new models in the market. TV and newspaper advertisements are really important in introducing a new product into the market. Test drives is another tool the distributors use to convince the consumer to make their buying decisions.

MARKET ACCESS

All SUVs, as all other vehicles, must conform to Turkish and EU safety regulations. Technical standards are very important factor in the Turkish vehicles market.

Nearly all vehicle owners complain about the high tax burden on vehicles, both locally made and imported.

Tax on imports of SUVs:

There are two major taxes on imports:

- 1) Special Consumption Tax (OTV):
Cylinder size below 1600 cc: 37% of CIF
Cylinder size between 1600 cc and 2000 cc: 60%
Cylinder size over 2000 cc: 84%

- 2) Value Added Tax (KDV): 18% of sum of CIF and Special Consumption Tax

In addition to these taxes, every vehicle owner pays Vehicles Tax every year. This tax again changes according to the age and the engine size of the vehicle, plus the type of the vehicle. Tax is less for

commercial vehicles.

The current tax system categorizes the vehicles to motor sizes and introduce huge taxes for very big motor-sized cars. This certainly creates disadvantage for U.S. vehicles that are known for their large engine sizes. For instance, the tax for 1995 Transam, Cammaro, or Corvette with a motor of 5700 (worth around between USD 14,000 - USD 24,000) is YTL4,883 for the year 2006. However, expensive cars owners will pay the vehicle tax very much less than the American cars. For instance, 2005 BMW or Mercedes with an engine of 2000cc, but worth more than USD90,000 will only pay YTL1,342. Currently, this creates a significant trade barrier against U.S. SUV imports.

The current regulation asks for after-sale service network in seven different geographic regions in Turkey for vehicles imports. Distributor needs to prove this network with a document at the customs during importation. Ministry of Industry and Trade provides such a document. Customs, then permits the distributor to import vehicles and come back to pay the Special Consumption Tax after collecting the money from the end users. However, if the distributor cannot prove its after-sale network with a document, then it needs to pay the Special Consumption Tax during importation, and ask the Turkish Standards Institute/Ministry of Industry and Trade to check the vehicles, and provide a “Conformity Document”. And this is only for imports with “testing” purposes. Turkey's imports are regulated by an annual import regime published by the Undersecretary for Treasury and Foreign Trade (UTFT). The Import Regime sets forth import rules and regulations for the year, customs duties and surcharges on imported products, and lists of investment products, the importation of which is encouraged by the government.

Turkey’s January 1, 1996 accession to the European Union's customs union has resulted in zero duties for imports from the EU countries and the same agreement has led to general reductions in duty rates assessed to non-EU third-country imports. A list showing the current rates for imports from non-EU countries, including the United States, is given below:

HS Number	Product	Duty Rate (%)
8703.23.19.12.00	Vehicles with spark-ignition internal combustion, reciprocating piston engine of a cylinder capacity exceeding 1600 cc but not exceeding 2000 cc	10
8703.23.19.13.00	Vehicles with spark-ignition internal combustion, reciprocating piston engine of a cylinder capacity exceeding 2000 cc but not exceeding 3000 cc	10
8703.24.10.10.00	Vehicles with spark-ignition internal combustion, reciprocating piston engine of a cylinder capacity exceeding 3000 cc	10
8703.32.90.12.00	Vehicles with compression-ignition internal combustion, piston engine (diesel or semi-diesel) of a cylinder capacity exceeding 1600 cc but not exceeding 2000 cc	10
8703.32.90.13.00	Vehicles with compression-ignition internal combustion, piston engine (diesel or semi-diesel) of a cylinder capacity exceeding 2000 cc but not exceeding 2500 cc	10
8703.33.19.10.11	Vehicles with compression-ignition internal combustion, piston engine	10

	(diesel or semi-diesel)of a cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	
8703.33.19.10.12	Vehicles with compression-ignition internal combustion, piston engine (diesel or semi-diesel)of a cylinder capacity exceeding 3000 cc	10

All products, both imported and locally manufactured, are subject to an additional 18 percent value-added tax (VAT). VAT is calculated based on the CIF value for imported products.

MARKET ENTRY

o Distribution Channels

Suppliers' agents play an essential role in marketing and sales to the market. American companies are encouraged to identify aggressive agents who could help them establish in the market. Another very important factor is choosing a distributor is its after-sale service capability in addition to its spare parts inventory affordability. Most end users pay much attention to these factors, while making their buying decisions. Regulations also instruct that the foreign vehicle suppliers offer these two things, after-sales service and spare parts inventory. U.S. firms can take advantage of U.S. Commercial Service programs to identify appropriate agents/distributors overseas. More information on these services is available at www.csturkey.com.

In Turkey, agency/representation/distributor agreements are private contracts between agents and their foreign suppliers. There are no unusual regulations, which govern commission rates, termination, etc.

o Financing strategies

The most common payment method is by letter of credit. Importers generally provide letter of credit at sight.

Again, due to ongoing economic uncertainty in the country, bank credits were not available, and if available, not very attractive. However, decreasing inflation rate also pulled down the interest rates. Currently, nearly 90% of the customers use bank credits to fund the vehicles. This makes distributors' lives easier, because currently, it is the bank that will pay for the vehicles.

UPCOMING TRADE SHOWS/EVENTS

US firms may wish to participate in the following trade promotion opportunities:

1) BURSA OTO SHOW, BURSA 3RD AUTOMOBILE, COMMERCIAL VEHICLES, MOTORCYCLES, BICYCLES, AND ACCESSORIES FAIR
(BURSA 3. OTOMOBİL, TİCARİ ARAÇLAR, MOTOSİKLET, BİSİKLET VE AKSESUARLARI FUARI)

Dates: April 4-9, 2006

Location: Bursa

Organizer: TUYAP TUM FUARCILIK

Tel : [90] (224) 211-5081 , Fax : [90] (224) 211-2216

Web: www.tuyap.com.tr

2) ITAF 2006 , 5TH ISTANBUL COMMERCIAL VEHICLES FAIR

(5. ISTANBUL TICARI ARACLAR FUARI)

Dates: May 15–18, 2006

Location : Istanbul

Organizer : TUYAP TUM FUARCILIK YAPIM A.S

Tel : [90] (212) 886-6843 , Fax : [90] (212) 886-6243

Web : www.tuyap.com.tr

3) AUTOSHOW 2006, 11TH INTERNATIONAL AUTOMOBILES FAIR

(11. ULUSLARARASI OTOMOBIL FUARI)

Dates : December 3–12, 2006

Location : Istanbul

Organizer : ITF

Tel : [90] (212) 465-7475 , Fax : [90] (212) 663-0973

Web : www.cnrexp.com

MAJOR PUBLICATIONS:

1) Autoshow (weekly magazine)

Publisher: Dogan Burda

Tel: [90] (212) 410-3440, Fax: [90] (212) 410-3442

Web: www.autoshow.com.tr

2) Autocar (monthly magazine)

Publisher: Turk Medya

Tel: [90] (212) 449-3449

Web: www.autodergi.com

3) CarPlus (monthly magazine)

Publisher: Plus Medya

Tel: [90] (212) 325-7878, Fax: [90] (212) 280-7200

Web: www.carplus.com.tr

4) Otohaber (weekly magazine)

Publisher: Merkez

Tel: [90] (212)411-2000, Fax: [90] (212) 411-2160

Web: www.otohaber.com.tr